

# Joint Legislative Budget Committee

## Staff Memorandum

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Representative Russell Pearce, Chairman, House Appropriations Committee (P)  
Senator Dean Martin, Chairman, Senate Finance Committee  
Representative Steve Huffman, Chairman, House Ways and Means Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director  
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SUBJECT: FY 2007 TRUTH IN TAXATION RATES FOR EQUALIZATION ASSISTANCE  
TO SCHOOL DISTRICTS

### Summary

By February 15<sup>th</sup> of each year, the JLBC Staff is statutorily required to report the new Truth in Taxation (TNT) adjustments to K-12 local property tax rates for the upcoming fiscal year. This memo describes the fiscal implications of the estimated TNT adjustments and other related technical estimate updates.

New information from county assessors on property value growth has just been received. Due to marginally higher than expected growth for existing properties, it is now estimated that TNT will require the K-12 Qualifying Tax Rate (QTR) to be lowered 0.12¢ to 0.24¢ (less than a quarter of a cent) below what was projected in the FY 2007 JLBC Baseline for the Arizona Department of Education (ADE). These new lower rates will go into effect unless two-thirds of the Legislature votes otherwise.

In addition, total statewide net assessed valuation (NAV), which includes both new and existing property, and property owned by the Salt River Project (SRP), is 0.1% lower than under the JLBC Baseline. The revised growth rates for both TNT and NAV affect the FY 2007 ADE estimates for Basic State Aid, Homeowner's Rebate, and state property tax collections. The net impact of these adjustments would require a \$2.1 million increase relative to the FY 2007 JLBC Baseline for ADE. Property tax revenues from unorganized and minimum QTR districts will also decline by a minimal amount in FY 2007. Table 1 summarizes how this new information could affect the state budget for FY 2007.

**Table 1**

<b>Possible Changes to JLBC Baseline</b>	<b><u>FY 2007</u></b>
Reduce TNT Rates	\$1,200,300
Reduce NAV	1,470,300
Reduce Homeowner's Rebate	<u>(530,800)</u>
Net Change – Dept. of Education	\$2,139,800

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There are 4 separate components to the cost estimate. First, the lower K-12 QTR rates due to the TNT reduction will increase the estimated cost of Basic State Aid by \$1,200,300 in FY 2007 above the current JLBC estimates.

The marginally lower-than-projected growth in property values will further increase Basic State Aid costs by \$1,470,300 in FY 2007. Under the K-12 funding formula, a smaller tax base generates less school property tax revenues and therefore commensurately more costs to the state. Based on the new valuation data, it is now assumed that statewide NAV (including SRP property) will grow by 9.9% in FY 2007 compared to the JLBC Baseline estimate of 10.0%.

The lower-than-expected NAV growth will also reduce the cost for the "Homeowner's Rebate" program (A.R.S. § 15-972). For FY 2007, the state will pay 36% of the cost of residential school property taxes under this program. It is estimated that this cost will be \$(530,800) lower than is assumed in the current JLBC estimates for FY 2007.

The revised (lower) QTR rates under TNT will reduce state revenues from certain local property tax collections that are deposited into the state General Fund. However, this impact is expected to be minimal. This will result in a grand total budgetary impact for these technical estimate changes of \$2,139,800 in FY 2007 relative to the current JLBC Baseline.

## **Background**

Pursuant to A.R.S. § 41-1276, the JLBC Staff is required by February 15 each year to compute and report TNT rates for equalization assistance for the upcoming fiscal year. The TNT rates consist of the QTR and the County Equalization assistance for education tax rate, of which both are used in the K-12 funding formula. For FY 2006, the QTR is \$3.6180 for unified school districts and \$1.8090 for elementary and high school districts. The county equalization tax rate, which applies to all school districts, is \$0.4358. (Prior to Laws 1998, Chapter 153, which extended the TNT legislation to also include K-12 equalization assistance, the corresponding rates were: \$4.40, \$2.20 and \$0.53 per \$100 net assessed value.)

The purpose of TNT is to offset the statewide appreciation of existing property with a commensurate reduction in the QTR and the county equalization tax rate. These rate reductions are intended to ensure that the total statewide tax liability (associated with Basic State Aid) for existing properties remains unchanged in spite of increased valuations.

## **Revised NAV Growth Rates**

Based on new information provided by county assessors, it is currently expected that NAV will grow by 10.0% in tax year 2006 (FY 2007). Of this figure, 3.3% would be attributable to the appreciation of existing property and 6.7% to new construction. After SRP property is included, statewide NAV growth is reduced from 10.0% to 9.9%.

While the final NAV growth rate for FY 2007 will not be known until August of this year, it is expected that only minor adjustments will be made to account for the ongoing assessment of personal property.

## **New TNT Rates**

To comply with the TNT law, the QTR and County Equalization tax rates have to be reduced in proportion to the statewide appreciation rate of existing property. The appreciation rate of 3.3% in FY 2007 would result in new QTR rates of \$3.5034 for unified school districts and \$1.7517 for

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elementary and high school districts. The corresponding new county equalization rate is \$0.4220. By comparison, the JLBC Baseline budgeted K-12 education tax rates of \$3.5058, \$1.7529, and \$0.4223.

The difference between budgeted and revised TNT rates is summarized in Table 2 below.

<b>Table 2</b>	<b>K-12 Education Tax Rates</b>		
	<b><u>Unified QTR</u></b>	<b><u>Non-Unified QTR</u></b>	<b><u>County Equalization</u></b>
FY 2006 Actual	\$3.6180	\$1.8090	\$0.4358
FY 2007 JLBC Baseline	\$3.5058	\$1.7529	\$0.4223
FY 2007 Revised	\$3.5034	\$1.7517	\$0.4220

Table 2 shows that the original budget lowered the QTR rate for unified school districts by 11.22¢ from \$3.6180 in FY 2006 to \$3.5058 in FY 2007. The newest data results in the QTR being reduced by another 0.24¢ in FY 2007 to \$3.5034.

### **Total TNT Cost**

As shown in Table 3 below, the JLBC Baseline budget assumed a TNT cost of \$55,346,800 for FY 2007. The additional 0.24¢ QTR reduction that would be required by TNT under revised data would increase this cost by an estimated \$1,200,300. This would result in a total estimated TNT cost of \$56,547,100 for FY 2007.

<b>Table 3</b>	<b>Cost of TNT Reductions</b>	
		<b><u>FY 2006</u></b>
Original JLBC Estimate		\$55,346,800
Possible Revision		<u>1,200,300</u>
Revised TNT Cost		\$56,547,100

A.R.S. § 41-1276 requires that if the Legislature proposes either a QTR or county equalization rate that exceeds the newly calculated FY 2007 TNT rate, the House Ways and Means Committee and the Senate Finance Committee must hold a joint hearing on or before February 28<sup>th</sup> and publish a notice of that hearing prior to that date. In addition to publishing a TNT notice, the 2 committees must also jointly issue a press release containing the notice. The Legislature cannot adopt a state budget with rates that exceed the TNT rates unless they are approved in a concurrent resolution by a roll call vote of two-thirds of the members in each house.

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